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Message Text

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64
ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

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P R 102243Z NOV 76
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 1629
INFO USMISSION GENEVA
USDEL MTN GENEVA
ALL AMCONSULS CANADA

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E.O. 11652: N/A
TAGS: ETRD, CA
SUBJECT: USDEL REPORT ON ARTICLE XIX CONSULTATIONS WITH CANADA ON CANADIAN MEASURES AFFECTING IMPORTS OF TEXTILE PRODUCTS FROM THE U.S.

1. SUMMARY. U.S. AND CANADIAN DELS MET ON NOVEMBER 9 IN OTTAWA FOR CONSULTATIONS ON CANADIAN SURTAX APPLIED TO CERTAIN VARIETIES OF POLYESTER FILAMENT YARN IMPORTS AND GLOBAL QUOTA ON IMPORTS OF DOUBLE-KNIT FABRICS. CONSULTATIONS WERE HELD PURSUANT TO PROVISIONS OF GATT ARTICLE XIX:2. U.S. DEL REQUESTED IMMEDIATE REMOVAL OF BOTH CANADIAN RESTRICTIONS AND WAS TOLD THAT SUCH ACTION WAS UNLIKELY AT THIS TIME. AS PER INSTRUCTIONS CONTAINED IN TPSC DOC 76-60 U.S. SOUGHT SUBSTANTIALLY EQUIVALENT CONCESSIONS TO COMPENSATE U.S. FOR EFFECTS OF SURTAX ON POLYESTER FILAMENT YARN IMPORTS. CANADIANS INDICATED THAT THEY WOULD CONSIDER U.S. REQUEST. U.S. DEL REFRAINED FROM
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REQUEST OF CONCESSIONS AT THIS TIME IN COMPENSATION

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FOR GLOBAL QUOTA ON DOUBLE-KNITS AS ADMINISTRATION AND IMPORT ALLOCATION PROCEDURES ARE STILL TO BE DETERMINED. CANADIAN DEL HINTED AT LIKELHIOOD OF ADDITIONAL RESTRICTIONS ON TEXTILE PRODUCTS, PARTICULARLY APPAREL ITEMS, BECAUSE OF SEVERELY DEPRESSED STATE OF INDUSTRY IN CANADA. END SUMMARY

2. SURTAX ON TEXTURED POLYESTER FILAMENT YARN IMPORTS: CANADIAN DEL BEGAN SESSION ON YARNS SURTAX WITH DESCRIPTION OF FACTORS AFFECTING DOMESTIC INDUSTRY LEADING TO PERCEIVED NEED TO IMPOSE SURTAX. GENERALLY DISMAL CHARACTERIZATION INCLUDED STATEMENTS THAT DOMESTIC SHIPMENTS WERE DOWN DRAMATICALLY, 41 PERCENT OF CANADIAN CONSUMPTION OF THESE YARNS WAS CURRENTLY ACCOUNTED FOR BY IMPORTS, IMPORTS FROM THE U.S. IN THE FIRST HALF OF 1976 WERE UP 141 PERCENT FROM FIRST HALF OF 1975, AND PRICE PER POUND OF POPULAR DENIER COUNT 150 NATURAL, ONCE AT C$1.15-1.20, HAD FALLEN TO CURRENT C$0.85-0.90.

3. CANADIANS MADE FURTHER POINT THAT EFFECT OF SURTAX WAS MINIMAL SINCE GOC HAS EVIDENCE THAT U.S. MNC'S HAVE ADJUSTED PRICES UPWARD TO FLOORS SET BY SURTAX ORDER-INC-COUNCIL. IN ADDITION, TOTAL IMPORTS OF POLYSTER YARNS FROM U.S. (AT LEAST ONE-THIRD OF WHICH ARE HISTORICALLY OF DENIER COUNTS NOT COVERED BY SURTAX) WERE 9.2 MILLION POUNDS IN FIRST SEVEN MONTHS OF 1976 COMPARED TO 7.8 MILLION POUNDS IN ALL OF 1975. COLLECTED SURTAX AMOUNTED TO ONLY :$42,000 IN JULY - SEPTEMBER PERIOD ON ONLY 150,000 POUNDS OF YARNS OUT OF 1.6 MILLION POUNDS OF YARN IMPORTS COVERED BY SURTAX PROVISIONS.

4. U.S. DEL (LEARY) EXPLAINED THAT ON BASIS OF ADMITTEDLY INCOMPLETE INFORMATION AVAILABLE TO US WE HAD CALCULATED THREE YEAR (1973-75) AVERAGE SURTAX EFFECT AT 25 PERCENT AD VAL CHARGE ON C$6.6 MILLION OF IMPORTS FROM U.S. IN OUR VIEW PRICE CONSIDERATIONS WERE NOT RELEVANT TO ARTICLE XIX ACTIONS AND IF THIS WAS CANADA'S CAUSE OF DISTRESS THE GOC SHOULD MAKE USE
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OF ANTI-DUMPING MECHANISMS. LEARY STATED USE OF ARTICLE XIX ALSO QUESTIONALBLE ON GROUNDS OF INCREASED IMPORTS AND URGED GOC TO EFFECT EARLY REMOVAL OF MEASURE.

5. WHEN CANADIANS INDICATED SURTAX REMOVAL UNLIKELY, U.S. DEL REQUESTED THAT THEY CONSIDER SUGGESTED COMPENSATORY CONCESSIONS AS OUTLINED IN TPSC DOC 76-60.

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CANADIANS INITIALLY RESPONDED THAT WHILE U.S. MIGHT MAKE CASE ON TECHNICAL IMPAIRMENT, U.S. EXPORTS HAD NOT BEEN DAMAGED AND IN ADDITION CANADIAN INDUSTRY WAS CLEARLY INJURED BY IMPORTS, THUS ACCORDING TO GOC READING OF ARTICLE XIX THE GOC OWED NO COMPENSATION TO U.S. EXPORT INTERESTS. LEARY ANSWERED THAT THERE WAS LITTLE VALUE IN DEBATING COMPENSATION PRINCIPLE; HE POINTED OUT THAT ARTICLE XIX DID PROVIDE FOR WITH-DRAWALS OF CONCESSIONS ON OUR PART, BUT U.S. PREFERRED LIBERALIZING EFFECTS OF COMPENSATORY CONCESSIONS.

6. CANADIAN DELEGATION ACCEPTED LIST OF CONCESSIONS REQUESTED BY U.S. AND AGREED TO CONSIDER IT WITHOUT PREJUDICE TO THEIR EARLIER STATED OPPOSITION TO COM-PENSATING U.S. FOR ARTICLE XIX ACTIONS. THEY ALSO INDICATED THAT THEY WOULD SUPPLY DISAGGREGATED DATA TO U.S. ON IMPORTS BY DENIER COUNT IN 1976 AND FOR THAT PORTION OF 1975 INCLUDED IN GOC IMPORT SUR-VEILLANCE PERIOD SO THAT WE COULD BETTER UNDERSTAND ACTUAL SURTAX EFFECTS.

6. DOUBLE-KNIT FABRICS QUOTA: CANADIANS JUSTIFIED ARTICLE XIX ACTION BY NOTING; (A) DOWNTURN IN CONSUMER DEMAND FOR DOUBLE KNITS; (B) HALVING OF EMPLOYMENT RELATED TO THIS PRODUCT IN LAST TWO YEARS; AND (C) SIGNIFICANT INCREASE IN IMPORTS RELATIVE TO DOMESTIC PRODUCTION OF PRODUCT DURING LAST TWO YEARS. CANADIAN REP STATED FURTHER THAT QUOTA WAS AN INTERIM MEASURE DESIGNED TO RETURN STABILITY TO CANADIAN MARKET.

7. U.S. REP, WITHOUT QUESTIONING DEPRESSED STATE OF CANADIAN DOUBLE KNIT INDUSTRY, STRESSED THAT ACTUAL VOLUME OF IMPORTS HAS NOT INCREASED AND IN FACT HAS LIMITED OFFICIAL USE

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BEEN DECLINING. THEREFORE, IN U.S. VIEW, THIS ACTION IS NOT JUSTIFIABLE UNDER PROVISIONS OF ARTICLE XIX. CONSEQUENTLY, U.S. REP URGED IMMEDIATE REMOVAL OF QUOTA.

8. CANADIAN REP RESPONDED THAT THERE WAS A GATT PRECEDENT FOR DETERMING INJURY ON BASIS OF IMPORTS RELATIVE TO DOMESTIC PRODUCTION AND STATED THAT EARLY REMOVAL OF THIS RESTRICTION WAS HIGHLY UNLIKELY GIVEN THE CONDITION OF CANADIAN INDUSTRY. HE WENT ON TO SAY THAT LEVEL OF IMPORTS FROM THE U.S. HAD INCREASED SIGNIFICANTLY IN PAST FEW YEARS. HE INDICATED FURTHER THAT FOR TIME BEING CANADA WAS FREELY ISSUING IMPORT PERMITS, SINCE ADMINISTRATIVE DETAILS OF QUOTA HAVE YET TO BE ESTABLISHED. HE ASKED U.S. DEL IF IT PRE-

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FERRED ALLOCATING QUOTA BY COUNTRY OF ORIGIN OR ALLOWING IMPORTERS TOTAL DISCRETION IN THE SELECTION OF THE SOURCE OF IMPORTS. U.S. REP RESPONDED THAT USG DOES NOT HAVE A POSITION ON THIS ISSUE AT PRESENT TIME.

9. U.S. REP CONCLUDED DISCUSSION BY STATING U.S. DEL CAME PREPARED TO REQUEST COMPENSATION FOR THIS ACTION. HOWEVER, SINCE ADMINISTRATIVE DETAILS OF QUOTA HAVE YET TO BE ESTABLISHED, THE U.S. WOULD DEFER SUBMITTING COMPENSATION REQUEST UNTIL SUCH TIME AS ACTUAL BRUNT OF IMPAIRMENT CAN BE MORE CLEARLY DEFINED BUT RESERVES RIGHT TO SUBMIT REQUEST LATER.

10. IN DISCUSSION FOLLOWING SPECIFICS OF ARTICLE XIX ACTIONS, CANADIAN DEL INDICATED THAT CANADA WAS CONSIDERING PROPOSALS FOR COMPREHENSIVE AS WELL AS SELECTIVE RESPONSES TO PROBLEMS IN THE TEXTILE INDUSTRY.

11. ACTION REQUESTED: RE PARA 8 ABOVE, EMBASSY BELIEVES THERE MAY BE SOME CHANCE TO INFLUENCE GOC DECISION ON WHETHER IMPORT QUOTAS FOR DOUBLE-KNIT FABRICS WILL BE GLOBAL GIVING DISCRETION TO IMPORTER TO DETERMINE COUNTRY OF ORIGIN OR WILL SPECIFY COUNTRY OF ORIGIN. RECOMMEND WASHINGTON AGENCIES LIMITED OFFICIAL USE

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ANALYZE IMPLICATIONS FOR U.S. TRADE OF THE TWO APPROACHES AND PROVIDE GUIDANCE TO EMBASSY ASAP.
ENDERS

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